South Africa

Sub-Saharan Africa's Engine of Growth

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It has been nearly a decade since the end of apartheid in South Africa—10 years since Nelson Mandela was elected president on that historic day in 1994, when millions of South Africans went to the polls in the country's first multiracial, multiparty election. In the critical years following his long imprisonment, President Mandela led South Africa through a remarkable, peaceful transition and, perhaps most importantly, left a legacy of tolerance and political reconciliation.

Thabo Mbeki, who succeeded Nelson Mandela and began his current five-year term after national elections in 1999, is likely to be elected to a second (and final) term as president in 2004. With a strong foundation of democracy in place, President Mbeki has turned his attention to economic transformation. The single greatest challenge facing South Africa today is to maintain and accelerate economic growth, which will enable the entire population to share in the nation's wealth. The path has not been easy and the results have been mixed. While great strides have been made in the provision of basic services, most notably the construction of low-cost houses (more than a million have been built since 1994) and access to electricity and clean water, it is estimated that 60 percent of black South Africans—who make up 85 percent of the population of 43 million—still live in poverty. Massive unemployment (officially estimated at 30 percent), high levels of crime, acute poverty, skewed income distribution, and a crippling HIV/AIDS epidemic have all taken their toll on this newly democratic nation. Yet South Africa remains sub-Saharan Africa's greatest hope for lasting growth and prosperity. Indeed, the country's sheer economic size—South Africa alone comprises 40 percent of sub-Saharan Africa's GDP—makes it the United States' largest and most important trading partner on the continent.

THE NEW SOUTH AFRICA

With GDP of $104 billion and per capita GDP of $2,800, South Africa is an upper middle-income developing country. It is in effect, though, a dual economy that is both developed and underdeveloped. South Africa's economy is reasonably diversified, with manufacturing and services contributing a sizeable share of GDP. South Africa is a country that was built on mining, and that sector remains the country's economic backbone. South Africa has some of the largest mineral reserves in the world and is a leading mineral producer and exporter. In 2001, South Africa produced 50 percent of the world's supply of platinum metals. It is also the world's second-largest coal exporting country, and the sixth-largest coal producer.

Mining was the first sector to be affected by the South African government's Black Economic Empowerment (BEE) initiative. The initiative is a strategy of economic transformation that aims to bring about "significant increases in the numbers of black people who manage, own, and control the country's economy, as well as significant decreases in income inequalities." Overall legislation is pending, but a

government strategy paper released in early 2003 outlines its key principles. The government will use a "balanced scorecard" to measure enterprises' progress in achieving BEE objectives. The scorecard will measure three core elements: direct empowerment through ownership (equity) and control of enterprises and assets; human resource development and employment equity; and indirect empowerment through preferential procurement and enterprise development. Each of these three elements will count for up to 30 percent, with 10 percent attributable to "social upliftment." Where sector-specific charters are developed (as in mining, whose charter is now law, or in oil and banking, which are next), the terms set out in those charters will apply. While fully committed to BEE objectives, companies on the ground and potential investors worry about the initiative's lack of clarity and have expressed concerns over policy implementation. What is clear is that the broad parameters of black economic empowerment are here to stay and very much a part of the new South Africa. For more information on BEE, consult www.thedti.gov.za.

INVESTMENT

There are about 900 U.S. firms in South Africa, up from about 250 in the mid-1990s. New investment in South Africa has been slow in recent years. However, the United States is still the largest new investor in South Africa, as it has been since 1994. Despite a troubled neighbor to the north in Zimbabwe, and the inevitable (if unwarranted) spillover of negative perceptions that that country's political situation has created, one fact resonates loudly: South Africa is a stable, world-class destination. Its stock exchange ranks among the top 15 in the world in terms of market capitalization. At the end of 2001, the U.S. direct investment position (a measure of stock of foreign direct investment as opposed to flows) in South Africa was $3 billion. U.S. investment is largely in the manufacturing sector.

U.S.-SOUTH AFRICAN TRADE

While sub-Saharan Africa's share of total U.S. merchandise exports is negligible (less than 1 percent), South Africa's share of the regional pie is significant, accounting for 42 percent of U.S. exports to the region. U.S. exports to South Africa last year were higher in value than our exports to Russia, whose population is more than three and a half times as large as South Africa. South Africa was the United States' 35th-largest export market worldwide in 2002, importing more than $2.5 billion of American goods. Leading exports to South Africa were fuel elements for nuclear reactors, boilers, and machinery; aircraft and parts; vehicles and parts; audio and TV equipment; and optical, medical, and surgical instruments. In the first half of 2003, U.S. exports to South Africa are up (8 percent) over the same time period last year, as are imports (12 percent).

South Africa is the largest supplier in sub-Saharan Africa to the United States after Nigeria, with more than $4 billion in exports in 2002. Platinum, diamonds, and motor vehicles are the top U.S. imports from South Africa. The latter is perhaps surprising, and can be traced in large part to German automaker BMW's decision in the mid-1990s to make its South African plant an export hub for its 3-Series line of sedans, which are manufactured locally and then exported to the United States, Japan, and Australia. BMW, like many companies, was attracted to the low costs of land, water, and electricity (South Africa has among the lowest electricity rates in the world) as well as skilled labor. Further, the higher shipping costs are offset by export incentives offered by the South African government—since 1995 via the Motor Industry Development Program—as well as the import duty exemptions of the African Growth and Opportunity Act.

AGOA

The African Growth and Opportunity Act, or AGOA, was signed into law on May 18, 2000, as a part of the Trade and Development Act of 2000. AGOA offers eligible African countries the most liberal access to the U.S. market available to any countries other than those with which the United States has free trade agreements. It expands and liberalizes the U.S. Generalized

KEY CONTACTS

U.S.-South Africa Business Council

This is an association that represents the majority of U.S. investors across all industry sectors. It also chairs the U.S.-SACU FTA Coalition, a private sector group that advises the U.S. government on those FTA negotiations.

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South Africa International Business Linkages

The South Africa International Business Linkages (SAIBL) program, a cooperative agreement between the U.S. Agency for International Development and the Corporate Council on Africa, builds the capacity and international competitiveness of historically disadvantaged, small and medium-sized South African businesses through trade and investment partnerships with U.S. companies. At no charge, SAIBL can help your company identify qualified South African partners for procurement contracts, equity investments, joint ventures, licensing, franchising, distributorships, and trade/marketing arrangements.

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U.S. Trade and Development Agency

The U.S. Trade and Development Agency (USTDA) opened the U.S. government's first trade finance office on the African continent when it began operations in July 2002 in Johannesburg, South Africa. The USTDA portfolio for Africa continues to expand, as sub-Saharan Africa continues to attract U.S. commercial interest, particularly in large infrastructure projects. Covering the region from Johannesburg, USTDA is eager to hear from U.S. firms pursuing large (greater than $5 million) sales opportunities involving transportation, power, the environment, communications, natural resources, and other sectors.

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System of Preferences program, allowing for duty-free importation of more than 6,400 items from eligible African countries. AGOA authorizes continuation of GSP for AGOA countries without interruption until September 30, 2008. It also permits duty-free and quota-free importation of apparel items manufactured in AGOA countries under certain conditions.

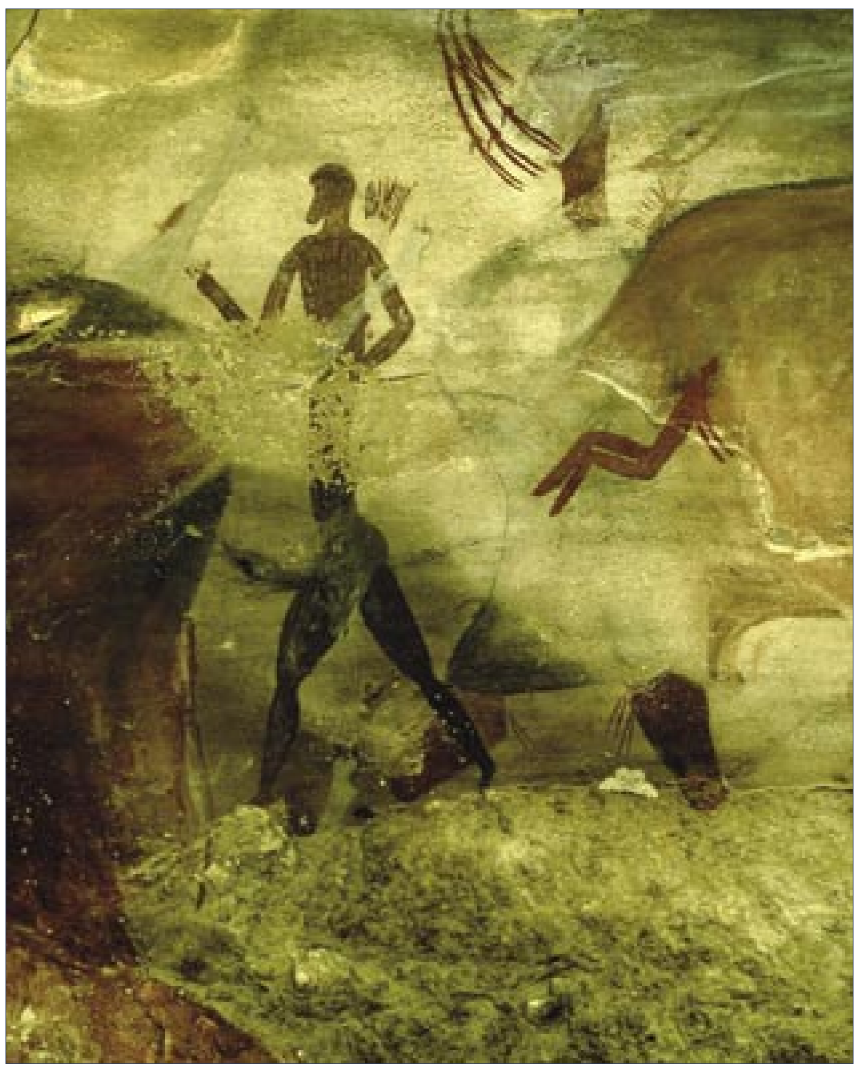
South Africa is AGOA eligible (including the apparel provision) and has in fact been a major beneficiary of the act. Interestingly, AGOA has indirectly encouraged U.S. exports to South Africa. Between 2000 and 2002, U.S. motor vehicle and parts exports to South Africa increased more than 88 percent, to $160 million, due in large part to efforts by automakers to base more production for the U.S. market in South Africa. A study by a South African economic research firm concluded that AGOA supported more than 65,000 jobs in South Africa alone in 2001 and caused a 1-percent increase in GDP. Indeed, South Africa's success with AGOA was a motivating factor in its decision to enter into free-trade agreement negotiations with the United States. Both countries realize the benefits that can accrue when the bilateral commercial relationship graduates to full partnership, when guaranteed preferential access to each other's market is the rule.

FREE TRADE AGREEMENT

Southern Africa has moved to the forefront of the Bush administration's effort to enhance global trade liberalization and to integrate developing countries into the global economy. The launch of negotiations on a free trade agreement (FTA) between the United States and the Southern African Customs Union (SACU)—Botswana, Lesotho, Namibia, South Africa, and Swaziland—in June 2003 signaled a new era of economic partnership between Africa the United States, and a significant opportunity for U.S. exporters.

Established in 1910, SACU is the world's oldest customs union and is the largest U.S. export market in sub-Saharan Africa, accounting for roughly $3 billion in exports in 2002. U.S. exports to SACU countries are concentrated in civil aircraft, chemicals, automobiles and auto parts, information technology, paper products, textiles, mineral fuels, industrial equipment, and scientific instruments. Under the proposed comprehensive FTA between the United States and SACU, due to be completed before 2005, U.S. companies will benefit from further liberalization in services, investment, intellectual property rights, and government procurement. The agreement will also help to level the playing field in areas where U.S. exporters are disadvantaged by the European Union's free trade agreement with South Africa.

The SACU countries are leading AGOA beneficiaries, accounting for more than 70 percent of U.S. non-fuel imports under this program in the past year. South Africa is the largest AGOA supplier of non-fuel goods to the United States, Lesotho is the largest AGOA apparel exporter, and Botswana, Namibia, and Swaziland have seen their total exports to the United States increase by 40 to 75 percent in the last year. Through AGOA, the SACU members have seen the positive role trade can play in fostering economic development. By moving from bilateral trade arrangements to a comprehensive free trade agreement, the United States



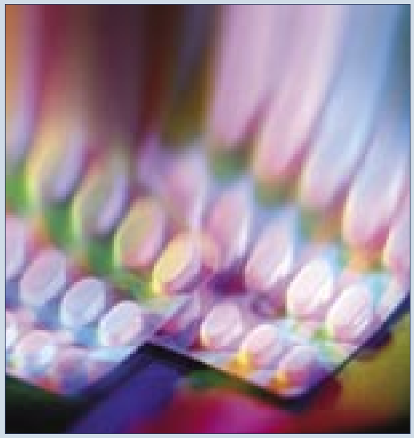
will expand its access to SACU markets, further link trade with regional economic development strategies, and promote regional economic integration and growth.

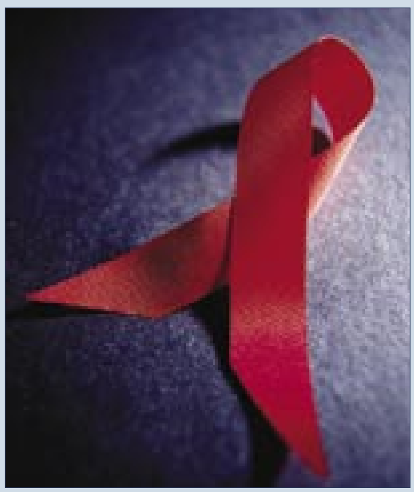
Trade capacity building is a vital part of the SACU FTA, and an opportunity to pair innovative solutions with regional economic and trade development challenges. The United States and the Southern African Customs Union have established a special cooperative group on trade capacity building, with $2 million in initial funding from the U.S. Agency for International Development. This cooperative group meets during every round of FTA negotiations to identify capacity building requirements to assist SACU countries in preparing for and participating in negotiations, implementing agreed commitments, and receiving the benefits of more open trade.

REGIONAL HUB

The vast majority of U.S.-SACU trade is with the country of South Africa. Eighty-six percent of U.S. exports to the SACU region are to South Africa, and 94 percent of imports from this region come from South Africa. South Africa is also a member of the Southern African Development Community (SADC), which also includes Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Seychelles, Tanzania, Zambia, and Zimbabwe. The SADC Free Trade Protocol (FTP), launched in September 2000, is an effort to phase out tariffs among SADC countries to eventually lead to a free trade area. The FTP will remove tariffs on 85 percent of intra-SADC trade by 2008, and on all but certain sensitive goods by 2012. Most of the SADC countries have ratified the FTP. Only Mauritius and South Africa, however, have actually begun to implement the protocol, mainly due to their extensive bilateral trade in textile and

HIV/AIDS





South Africa has the largest HIV-infected population in the world. According to reliable estimates, one in eight South Africans is HIV positive. Already the leading cause of death in the country, the economic impact of AIDS is equally sobering. Some studies suggest that GDP growth could drop by 1 to 2 percent annually in the worst affected African countries for the next decade. Yet the South African government—President Mbeki in particular—has been widely criticized for failure to recognize appropriately, and develop an effective response to, the pandemic. The private sector has done much to fill the void, sponsoring wide-ranging health and educational programs for its employees. There are signs, too, that the government is starting to come around. In August 2003, the South African government and the Global Fund to Fight AIDS, Tuberculosis and Malaria signed an agreement committing $41 million over two years for both treatment and prevention of HIV/AIDS and TB. The grants will, among other things, widen access of people living with HIV to lifesaving treatment with antiretroviral medicines.

apparel products. As within SACU, South Africa is by far the largest SADC economy.

With these regional structures in place, South Africa is a gateway to the southern part of Africa and beyond. South Africa is already a natural regional hub given the size and importance of Durban, the largest and busiest port in the Southern Hemisphere.

DOING BUSINESS IN SOUTH AFRICA

South Africa has, in accordance with WTO commitments, reformed and simplified its tariff structure. Tariff rates now generally fall within eight levels up to 30 percent, with some goods, specifically textiles and apparel, attracting higher rates. South Africa has reduced its tariff rates across the board since 1994, from an average of more than 20 percent to 7 percent. Of course, the applicable bilateral rates will be affected once the FTA comes into force.

The most obvious constraint to doing business in South Africa is the cost of shipping. For many firms, South Africa is still a "foreign" place. The distance between the United States and South Africa and general lack of market knowledge on the part of U.S. companies make solid local representation a necessity. South Africa has a sophisticated business environment, and finding a good partner is usually the most important first step to being successful in this market. The U.S. Commercial Service offices in South Africa (Johannesburg, Cape Town, and Durban) can be of tremendous assistance in identifying and assessing potential agents or distributors, and the process can be initiated via the U.S. Export Assistance Center network.

The service sector, which accounts for 65 percent of South Africa's GDP, is critical to future economic growth. South Africa is the fastest-growing tourist destination in the world, having attracted more than 6.5 million foreign travelers in 2002, an 11 percent increase over 2001. This growth has contributed significantly to economic development and undoubtedly generated new jobs. But the psychological effect for South Africa may be equally as beneficial. The increase in tourism since the end of apartheid has been far less than the government and industry had hoped for, crime and safety being chief among the concerns of visitors. Vacationers and businesspeople alike are increasingly discovering the country's natural beauty, its sophisticated infrastructure, and commercial opportunities.

Strong potential exists in telecommunications but is dependent on liberalization of the sector. Although the monopoly service provider Telkom's exclusivity period ended in May 2002, the licensing of a second network operator to compete with Telkom is still pending. A 2001 act that reinforced Telkom's control over the provision of bandwidth by outlawing resale until 2005 has also effectively restricted access to the infrastructure on which e-commerce—another potential growth sector—depends. Wireless Internet technologies, particularly satellite broadband, hold potential but are likewise constrained by the aforementioned act, which requires Internet service providers to lease facilities from Telkom, effectively restricting them from providing services from their own wireless equipment. On the mobile side, cellular phone ownership has shown strong growth, increasing from 2 percent of the population (in 1995) to 20 percent (in 2001). Franchising also holds promise, and the government has recognized the potential for economic empowerment and the transfer of skills.

While privatization has been slow in South Africa, large parts of the private sector are still dominated by a handful of conglomerates and holding companies. Progress in creating a more competitive business environment is integral to the government's strategy of economic transformation. Coupled with the development of a vibrant black middle class, it will also likely determine South Africa's fate as it enters its second decade removed from the shackles of apartheid. South Africa's ability to navigate this path in the years ahead will also be key to expanded commercial opportunities for U.S. companies seeking to do business there.

For more information on doing business in South Africa, visit the U.S. Commercial Service site at www.buyusa.gov/southafrica/en, or contact the Trade Information Center at (800) USA-TRADE (872-8723) or www.export.gov/tic.

Main sources: World Bank: World Development Indicators database; *Investment Climate Statement for South Africa* **(U.S. Embassy, Pretoria, 2003); and G. Feldman,** *U.S.-African Trade Profile* **(U.S. Department of Commerce, March 2003).**

Breathing Clearly

Air Monitoring Firm Wins South African Contracts

Thermo Environmental Instruments searches the world for opportunities to supply air-monitoring control equipment; but this time, the U.S. Commercial Service went shopping for specific equipment and discovered the firm. As a result of the U.S. Commercial Service's product search, Thermo recently signed a sales agreement with the municipality of Durban, South Africa, to supply $200,000 worth of equipment for South Africa's national pilot project to monitor air quality.

The Commercial Service's Durban office discovered Thermo at the Air and Waste Management Association's conference in Orlando, Fla., in 2000. Laurie Kohrs, of the Commercial Service in Durban, departed for Orlando with a mission: to identify U.S. suppliers of air-monitoring control equipment for the related project in Durban, which in turn would serve as a pilot project for future tenders in the country.

Over the next two years, the U.S. Commerce Department team—including the Commercial Service in Durban and Jane Siegel, international trade analyst for environmental technologies—worked closely with Thermo in an effort to devise an optimal business plan. The successful bidders were finally announced two years later, and all three were American, including Thermo. The company is supplying Durban with sequential dust analyzers.

Thermo is pursuing two other tenders in South Africa. The company has announced its success in supplying four new monitoring stations for the Johannesburg project, valued at nearly $500,000.

Ero Electronic Pty. Ltd., the South African distributor for Thermo, states that winning the Johannesburg tender is "directly related to Commercial Service Durban's long-standing assistance with Thermo and the Durban project. Winning Durban gave Thermo more credibility in the eyes of the Johannesburg municipality—all thanks to the U.S. Commercial Service's help from the beginning."

The deal is a prime example of Commerce Department colleagues and an innovative U.S. company working together cohesively. Says Kohrs, "An export success for an American company that incorporates so many U.S. Department of Commerce divisions around the world is like completing a puzzle—a great sense of satisfaction when that last piece just perfectly fits."